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## Research Analysis: PBO's Briefing on the 2021 Second Special Appropriation Bill

### Introduction

The brief provides issues and questions for consideration by members of the Standing Committee on Appropriations when dealing with the Second Special Appropriation Bill 2021 with the Parliamentary Budget Office (PBO). The Bill aims to release funds in support of various measures aimed at responding to the effect of the recent unrest and COVID-19. This includes support to affected businesses, refurbishment of infrastructure and other facilities, deployment of police and military personnel, and the extension of the Social Relief of Distress (SRD) grant. The affected departments include National Treasury; Social Development; Trade, Industry and Competition; Defence and Police. The total proposed special appropriation amounts to R32.9 billion.

### Summary Proposed Allocations

Receiving Department	Amount
<b>National Treasury</b>	R3.9 billion
<b>Social Development</b>	R26.7 billion
<b>Defence</b>	R700 million
<b>Police</b>	R250 million
<b>Trade and Industry and Competition</b>	R1.3 billion
<b>Total</b>	R32.9 billion

Source: National Treasury (2021b)

### Issues and Questions for consideration

- The PBO seems critical of government's stance on fiscal consolidation, however it would be important to also consider the factors that pushed government into fiscal consolidation as well as the consequences of not opting for fiscal consolidation
- In the view of the PBO, how would have government been able to avoid fiscal consolidation given the risks associated a combination of a low economic growth, high debt levels, and poor expenditure on capital projects?
- On Slide 5, the PBO claims that fiscal consolidation has caused government to break social compacts that seemed to have supported social stability:
  - What are some of the social compacts that the PBO is referring to?
- What could be a viable and sustainable alternative to fiscal consolidation in a country with a debt to GDP ratio of up to 80 percent and an annual growth rate that has struggled to reach above 10 percent for over a period of 10 years?



- Is the PBO not of the view that the root cause of South Africa's socio-economic challenges (i.e. unemployment, inequality and poverty) lies with persistently low economic growth as opposed to fiscal consolidation per se?
- National Treasury, in its defense, has repeatedly justified the use of fiscal consolidation as a policy instrument for managing a situation that could easily turn disastrous if expenditure is not constrained. What is the view of the PBO in this regard?
- In one of the slides the PBO seems to advocate for a more comprehensive social security system:
  - Whilst there seem to be consensus around this matter, however the most contentious issue is around the funding arrangements for the proposed comprehensive social security system, what is the PBO's take on this?
  - Is the PBO of the view that there is still room for more tax on the middle and upper class in order to fund the proposed comprehensive social security system?
  - Some commentators and businesses have warned that additional tax to fund the proposed comprehensive social security system could have devastating effect on economic growth and employment as the rich would opt for lesser tax-harsh economies on the African continent and abroad. What is the view of the PBO on this matter?
- On slide 7 the PBO argues that "Fiscal consolidation forces government to focus only on solutions to deep structural problems in the economy that are micro-economic, supply-side problems that require limited government expenditure"
  - However, this statement suggests that these two policy options are mutually exclusive. Is it not possible to implement policies that seek to resolve structural economic imbalances while simultaneously enforcing fiscal consolidation to avoid a debt trap that may push the country to the IMF and risk losing its sovereignty?
- Additional to the comprehensive social security system, the PBO underlines the need for national health insurance:
  - Again, is rolling out national health insurance affordable given the pandemic induced spending pressures, a host of constitutional obligations and a slowly diminishing state coffers mainly due to low economic growth?
- In the view of the PBO, are there specific conditions that government should attach to the proposed R1.3 billion financial support to small businesses that were affected by the recent unrest?
- Is there specific aspect of the Bill that the PBO think Parliament should reconsider and amend?
- In the view of the PBO, what sanctions should government institute against companies who would be tempted to defraud the system by double-dipping and fabricating financial loss and damages in order to benefit from allocations of the second special appropriation bill?
- What would happen to companies who could be found to have fraudulently benefitted from financial support from government?

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### Source

National Treasury (2021a) *2021 Second Special Appropriation Bill Standing Committee on Appropriations* Presented by: Dr Mampho Modise: National Treasury, August 2021

National Treasury (2021b) *Second Special Appropriation Bill [B 17—2021]*.

PBO (2021) *Second Special Appropriations Bill*, 7 September 2021